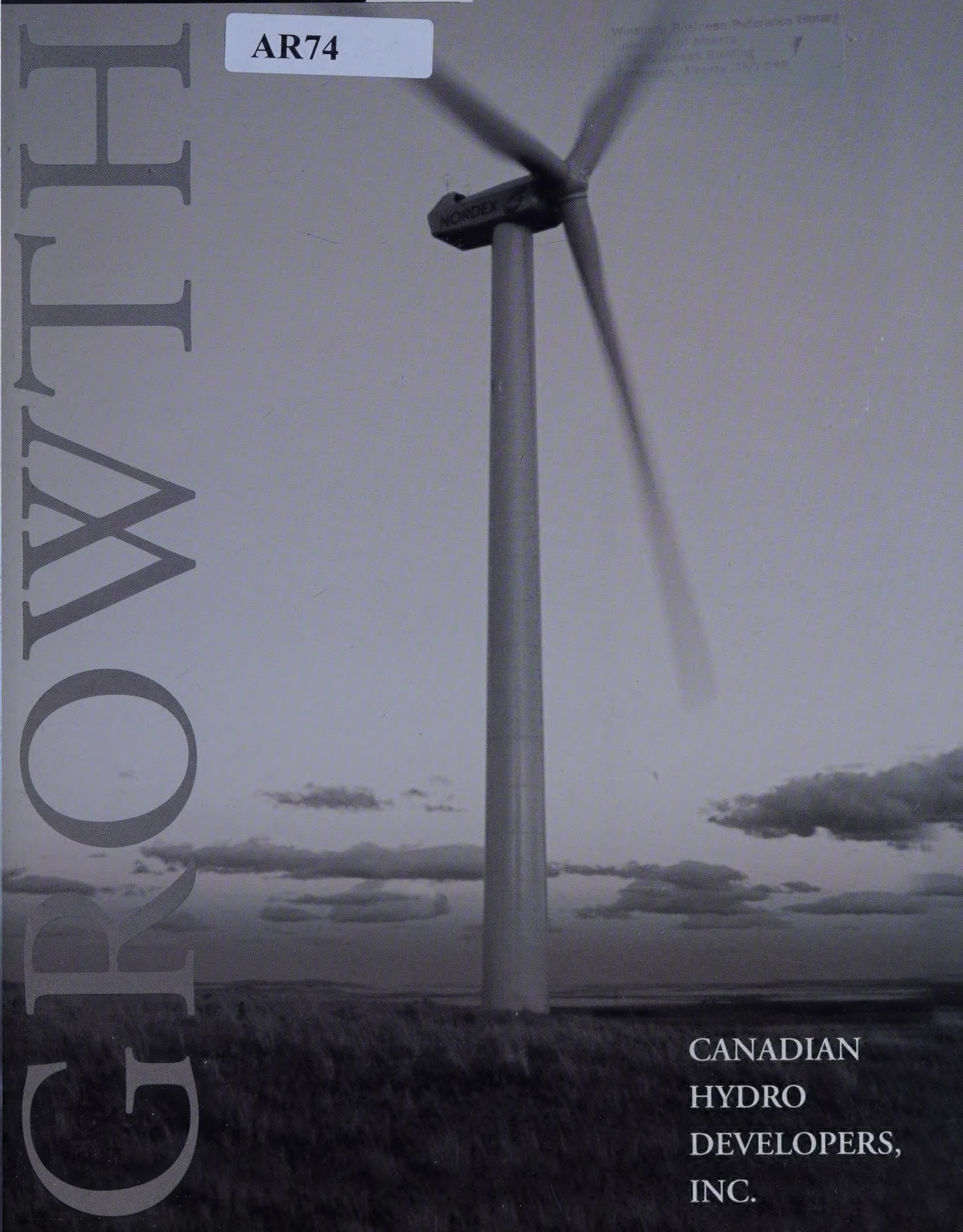
ANNUAL REPORT 2001

GROWTH



CANADIAN HYDRO DEVELOPERS, INC.

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Annual General and Special Meeting
The 2001 Annual General and Special Meeting of the Shareholders of Canadian Hydro Developers, Inc. will be held at the Karsten Discovery Centre at the Calgary Zoo, 1300 Zoo Road N.E. Calgary, Alberta at 3:30 PM on Tuesday, April 23, 2002

"The future depends on what we do in the present."

Mahatma Gandhii

CANADIAN HYDRO DEVELOPERS

GALETTA

PLANT

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CEO's Message

If a single word could define Canadian Hydro Developers' performance for 2001 it would be "growth." We increased generating capacity by 43% with the commencement of operations at the two new wind energy plants in Southern Alberta. Institutional shareholder support expanded with significant common equity placements to Shaw Ventures Ltd., ARC Canadian Venture Fund 2 and CDP Capital d'Amérique. This new equity, together with expanded credit facilities, has formed the financial foundation from which your company has embarked on an unprecedented program of growth.

Environment a top priority

Before addressing other achievements, we need to acknowledge the efforts of the federal government. During a time when national, continental and international security concerns are paramount, it is heartening to know that our government still views the environment as a top priority for Canadians.

This was evident in the December 2001 budget, which announced that wind energy projects completed between April 2002 and April 2007 would receive a multi-year production incentive. This time-limited production incentive will decline from an initial $12 per MWh to $8 over a 10 year period, during which it is expected that emissions trading regimes will mature worldwide and give recognition to the clean nature of renewable energy sources. The budget also announced an increase to 50 MW (from 15 MW) for hydroelectric projects that will qualify for the accelerated tax depreciation class 43.1. This seemingly minor change will allow several water power projects throughout Canada to proceed as a result of the improved after-tax economics.

Incentive for change at the provincial level

The federal production incentive announced in December is approximately one-half the production credit provided by the U.S. federal government, leading us to believe the Canadian federal government intended their announcement as an invitation to the provinces to match the offering. It is an important distinction that electricity, like oil and gas in Canada, is a matter of provincial jurisdiction, whereas it is a federal matter in the U.S.

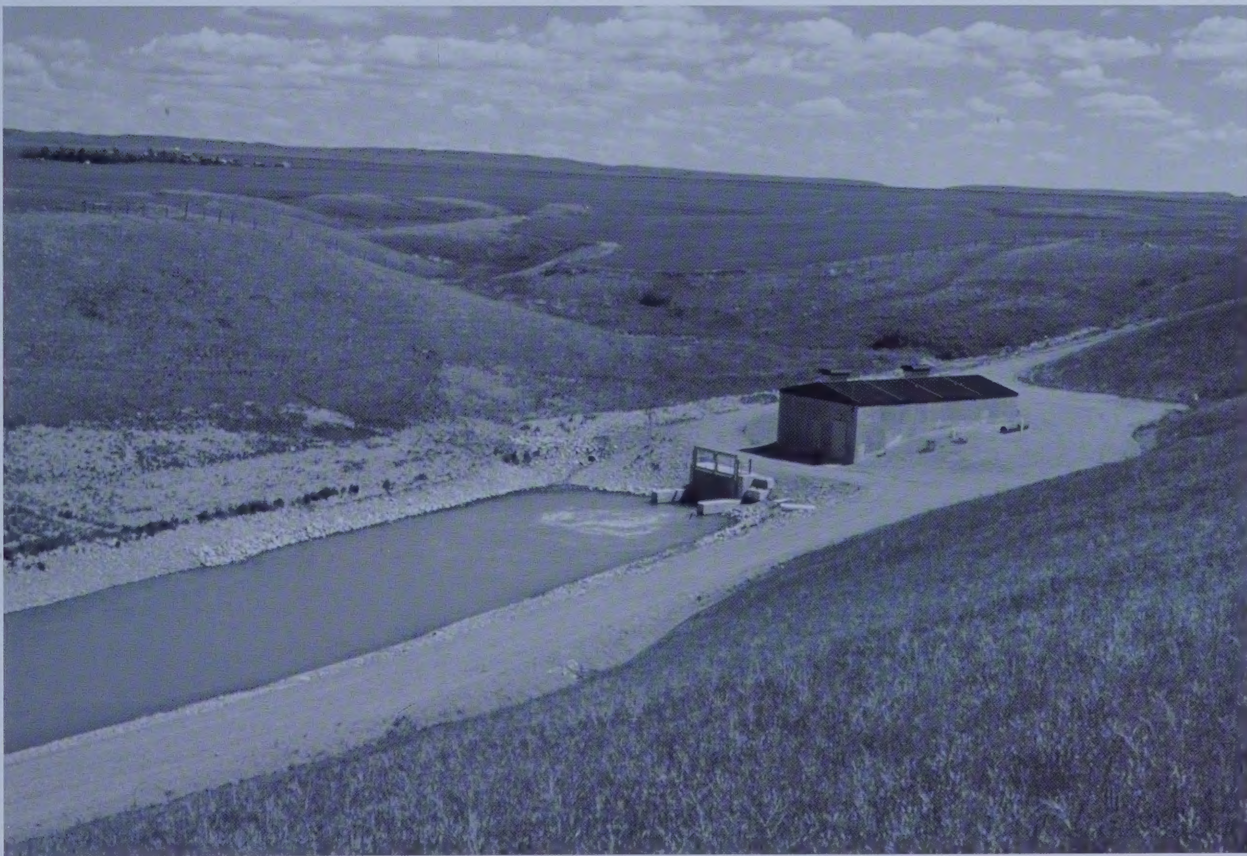
All provincial governments in Canada should respond to the implied federal invitation to immediately match this time-limited production incentive for wind energy, in order to be competitive with our major trading partner south of the border. If this were to happen, even with one province initially stepping forward, major new energy developments would undoubtedly occur and that region would quickly see first mover benefits.

> Change is inevitable.
> Growth is optional.
>
> Glenda Clous

Responding favourably to the federal government's implied invitation to match the wind energy production incentive would signal a new era! This is not a "feel good" choice, but rather an imperative if we are to preserve our lifestyle in the decades to come.

Weather affects water resources

As a company that works in partnership with the earth, we cannot ignore how global warming and ever-changing weather patterns affect our company. There now seems to be daily news about abnormal weather events throughout the world. For Canada, news headlines in the year 2001 have been dominated by the impact of a truly national drought. This was the world's second warmest year, 1998 being the hottest, in 140 years of record keeping. The United Nations sponsored World Meteorological Organization also says nine of the ten warmest years on record have occurred since 1990.



TAYLOR
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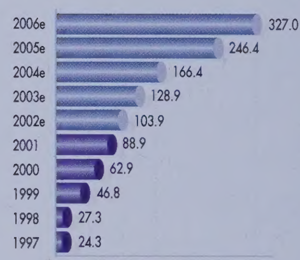
standing left to right:
David Stenason
Ross Keating
John Keating
Kevin Brown

seated left to right:
JR Shaw
Dennis Erker



Growth Objectives
(Exit Capacity - MW net)

2001 Achievements:

- Record production, despite drought conditions in 3 operating regions;
- Raised $34.9 million of equity;
- Expanded credit facilities to $58.4 million with National Bank of Canada and The Toronto-Dominion Bank;
- Commenced operations at the 19.5 MW Cowley North Wind Plant;
- Commenced operations at the 6.5 MW initial phase of the Sinnott Wind Plant;
- Commenced construction of the 30 MW Pingston Hydroelectric Plant in B.C.;
- Completed site preparation for 2002 construction of the 25 MW Grande Prairie EcoPower™ Centre; and
- Exited 2001 with 89 MW (2000 - 62 MW) represented by 13 low-impact power plants, 12 of which are EcoLogo™ certified.

New directors and employees

In connection with the private placement to Shaw Ventures, we welcome the addition of JR Shaw to the Board of Directors. Mr. Shaw is the founder of Shaw Communications Inc., as well as the Chairman of Suncor Energy Inc. Mr. Shaw's vision and leadership are a significant contribution to Canadian Hydro.

We also welcome several new employees, both in the head office, as well as in Alberta and British Columbia. Kent Brown, CA, joined us this year as the Chief Financial Officer and has become a key member of the management team. Our expanded Board, management and employee expertise provides Canadian Hydro with significant depth that will prove invaluable during this expansionary period.

We would like to thank all of our employees for their hard work and effort over the past year. It is this dedicated team that is responsible for the 2001 growth and is key to attaining our objective of exiting the year 2006 with 300 MW of green projects in production. In particular, we congratulate the crew in Pincher Creek who went "above and beyond" in making the Cowley North and Sinnott Wind Plants a reality.

Our vision is to be the premier producer of green power in Canada, focusing on environmental stewardship and growth, empowering employees and providing solid economic returns to investors.

On behalf of the Board of Directors,

John D. Keating
Chief Executive Officer

APPLETON

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Five Year Historical Summary

	2001	2000	1999	1998	1997
FINANCIAL RESULTS ($)					
Gross revenue	15,608,120	17,745,163	9,553,909	6,127,260	5,317,057
Cash flow from operations*	5,649,434	6,350,109	3,670,039	2,034,656	1,840,630
Per share (diluted)	0.14	0.22	0.13	0.07	0.10
Net earnings*	3,700,547	2,770,303	1,307,316	416,971	565,263
Per share (diluted)	0.09	0.10	0.05	0.01	0.03
Capital expenditures	60,026,615	9,545,114	27,571,302	4,949,304	3,170,807
Total assets	140,650,955	80,900,367	69,752,680	40,859,888	34,297,428
Long-term debt	40,779,754	30,914,426	37,206,193	20,969,595	20,356,560
Shareholders' equity	65,995,879	31,725,956	16,953,699	15,476,383	6,227,307
Common shares outstanding at year end:					
Basic	48,151,301	28,062,427	27,137,427	26,937,427	14,648,462
Fully diluted	60,391,423	41,302,707	29,882,427	29,603,427	19,945,862
Net book value per share	1.37	1.13	0.62	0.57	0.43
Cash flow return on average equity	12%	26%	23%	19%	33%
Net income return on average equity	8%	11%	8%	4%	10%
OPERATING RESULTS					
Installed capacity – MW (gross)	95.4	69.4	48.5	29.0	26.0
Installed capacity – MW (net)	88.9	62.9	46.8	27.3	24.3
Electricity generation – MWh (gross)	264,529	259,632	184,551	127,755	119,664
Electricity generaton – MWh (net)	245,113	235,160	176,492	120,054	112,245
Electricity generation – MWh (net)					
British Columbia	44,432	53,378	60,480	46,277	56,200
Alberta	140,536	117,840	63,589	29,863	32,076
Ontario	60,145	63,942	52,423	43,914	23,969
Hydroelectric	147,328	163,480	144,157	120,054	112,245
Wind	80,507	59,766	32,335	–	–
Natural Gas	17,278	11,914	–	–	–
Electricity generation sold under long–term contract	84%	83%	96%	97%	93%
Average price received ($/MWh)	63.68	75.46	54.02	51.04	47.37
STOCK MARKET					
Price range ($ per share)					
High	3.45	3.20	1.10	1.60	1.25
Low	1.75	0.72	0.65	0.90	0.55
Close	2.05	2.99	0.75	1.05	1.05
Volume (shares)	12,329,250	9,845,600	2,398,400	3,810,400	3,360,600

*Before preferred share dividends for 1997 and 1998.

PINGSTON
PLANT

GREEN DREAMS

Environmental focus the foundation for success

In the mid 1980s, Calgary brothers and oil patch veterans John and Ross Keating joined forces with geologist Jack McCleary to launch an unusual enterprise: an independent, "green" power company devoted to generating electricity from renewable, non-polluting resources.

While green power may have been a novelty 15 years ago, the conceptual underpinnings for Canadian Hydro Developers, Inc. were based on a simple logic: as the world gets more and more polluted, and as global warming becomes an increasingly destructive force, we will have to turn away from fossil fuel-burning, and toward new sources of clean, low-impact energy - like wind and hydroelectric power.

"In the future the majority of the energy we consume will come from sustainable sources," says Canadian Hydro Developers' Chief Executive John Keating. "That may be 50 or a hundred years from now, but it's coming."

But while the logic may have been sound, the road ahead for Canadian Hydro Developers was anything but easy. Alberta had not yet privatized its power industry, and independent producers had to work through a monopoly supplier, TransAlta Utilities Corp., if they wanted to generate and sell electricity in the province. Moreover, since the economics of independent power production were largely untested, investors were cautious, and capital correspondingly difficult to come by.

Slow and steady

Still, by 1989 Canadian Hydro Developers had raised $1.3 million in equity financing and had secured contracts with TransAlta to build three small run-of-river plants in Southern Alberta. The first of these was commissioned in April of 1990, yielding $500,000 in power sales for the year. By reinvesting cash flow from this and subsequent operations, the company found it could grow at the rate of one plant per year without raising additional funds. In 1991 Canadian Hydro Developers issued shares worth $1.5 million and didn't tap the capital markets again until 1998, when it raised $8 million to finance the development of several larger-scale hydroelectric and wind generation projects.

> Nothing is so powerful as gentleness; Nothing is so gentle as strength.
>
> Saint Francis de Sales

The strategy has allowed Canadian Hydro Developers to grow from a single 3 MW plant on the Belly River in Southern Alberta, to thirteen hydroelectric and wind power facilities in three provinces, generating 89 MW of power today.

Still, in the eyes of the dot-com companies that dominated the corporate landscape during much of the 1990s, it must have seemed an impossibly conservative way to run a business. This was a time when traditional measures of company performance - revenue, profit, and debt load, for example - were considered quaintly outdated artifacts of the "old" economy. A time when losses were not only tolerated but expected of fast-growing high-tech companies; and when every acquisition, no matter how costly, was greeted with huzzahs from the investment community. The Internet economy crashed in 1999, however, and when it did investors looked around and discovered what Canadian Hydro Developers had known

CANADIAN HYDRO DEVELOPERS

COWLEY
NORTH

all along: fundamentals do matter, risk management is not optional, and, most importantly, impressive growth can be achieved without endangering the enterprise.

"We've always managed under the assumption that slow and steady wins the race," says Keating. "If you try to be a superstar company that grows in leaps and bounds unabated, that's usually financed by taking on inordinate amounts of debt, and the risk profile is that much higher. We try to avoid that."

A changing landscape

If the early years of Canadian Hydro Developers were characterized by monopoly power markets and investor apathy, the company would soon be faced with an entirely different set of challenges.

The deregulation of the Alberta power industry in 1996 brought with it the opportunity to sell electricity directly to end users, and also into the Alberta Power Pool - the so-called "spot market" that sets electricity prices in the province on an hourly basis. While this resulted in more opportunity for independent power producers, it also meant that customers, faced with an increasingly liquid electricity market, stopped signing long-term, 20-year contracts in favour of shorter, one-to-five-year deals. The trend made it necessary for Canadian Hydro to become a more aggressive competitor. "Rather than sitting back waiting to sign contracts, we have to be proactive in going out there and securing them," says Keating. "It's a matter of devoting internal resources to marketing, and forging strategic alliances with firms that have access to customers."

The move to shorter-term contracts also made financing more difficult, since lenders had become used to extending credit against the security of 20-year deals. Here too, Canadian Hydro Developers was forced to become more aggressive, looking beyond the banks to find new sources of capital. The fact the company was able to raise upwards of $84 million in equity and debt financing between October of 2000 and August of 2001 is testament to its on-going success in this regard.

The increased marketing and capital costs are being offset by economies of scale, as Canadian Hydro Developers pursues ever-larger projects. (See Report on Operations.) With all current and upcoming projects, Canadian Hydro Developers' total capacity will increase to well over 300 MW by 2006.

Christmas came early

Meanwhile, the entire renewable energy industry got a surprise boost in the December budget, when the federal government announced two new initiatives: a 1.2-cent per kilowatt-hour production incentive for wind power generation, and an increase in the size limit that qualifies for accelerated tax depreciation for hydroelectric plants. (This allows projects like Pingston to be depreciated at 30% per year instead of 8%). "We've been lobbying for that for five years," says Keating. "It makes a big difference."

These changes help make wind and hydroelectric generation competitive with gas-fired plants, and if gas prices increase - as Keating expects they will by the fourth quarter of 2002 - green power becomes even more attractive. Coupled with the decreasing costs and increasing efficiency of wind and water turbines, a Canada-wide trend towards industry deregulation, and a growing international movement towards renewable, non-polluting energy sources, the future looks exceptionally bright.

"Our compounded average growth over the last five years has been around 30 percent per year," notes Keating. "If we can continue on a track like that over the next five years, the growth will be dramatic." ◆

SINNOTT
PLANT

Report on Operations

Canadian Hydro (CHD) owns and operates nine hydroelectric, three wind and one gas-fired power plants in British Columbia, Alberta and Ontario. The Company exited the year with 88.9 MW of generation capacity - representing 43% growth. All twelve of CHD's water and wind plants have been certified under Environment Canada's "Environmental Choice" program as EcoLogo™ Certified emissions-free energy sources.

2001 OPERATIONS

2001 was a year of extreme weather, with Alberta and British Columbia experiencing record drought conditions. The positive effect of warm and dry weather was windier than normal conditions in Southern Alberta, where CHD's three wind plants are located. While precipitation appears to have returned to normal levels in Alberta and British Columbia, it has yet to be determined whether 2002 will mark the end of the prolonged drought. Ontario had record snowfalls for the winter of 2000/2001, followed by drought conditions in the summer, then an extremely wet fall and winter.

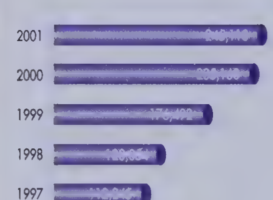
Notwithstanding this extreme weather, the Company had record production of 245,113 MWh in 2001. CHD's wind plants benefited from the higher than normal winds; while its hydroelectric plants were negatively impacted by the drought. The Cowley Ridge Wind Plant (21.4 MW) had its best year ever, up 12% over the projected generation for the year. The addition of Cowley North (19.5 MW) and Sinnott (6.5 MW) in the fourth quarter of 2001 further increased the wind generation for the year. This is proof that a strategy of technological and geographical diversification reduces CHD's exposure to the elements.

2001 vs. 2000 Electricity Generation - by Province and Technology

		Electricity Generation - MWh[1]		
	Size (MW)	2001	2000	Variance
British Columbia	10.0	44,432	53,378	-17%
Alberta	68.0	140,536	117,840	+19%
Ontario	10.9	60,145	63,942	- 6%
Totals	**88.9**	**245,113**	**235,160**	**+ 4%**
Hydroelectric	35.5	147,328	163,480	- 10%
Wind	47.4	80,507	59,766	+35%
Natural Gas[2]	6.0	17,278	11,914	+45%
Totals	**88.9**	**245,113**	**235,160**	**+ 4%**

[1] Reflecting CHD's net interest.

[2] Drywood Plant became operational in August 2000.



Electricity generation (MWh net)

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In June 2001, CHD had its first major property damage at its Akolkolex Hydroelectric Plant near Revelstoke, B.C. High winds caused a power line to fall, energizing a buried communications cable and causing a fire in the control room. Insurance covered both the lost revenue and cost of repairs, with the exception of approximately $200,000 and 4,000 MWh of power generation resulting from the insurance deductibles. The plant has been completely repaired and is fully operational.

NEW PLANT ACTIVITY

Cowley North Wind Plant (19.5 MW) and Sinnott Wind Plant (6.5 MW) - Alberta

Cowley North became operational in September 2001, with the commissioning of the first of fifteen turbines. At year-end, all turbines were erected with eleven operational. The five turbines at Sinnott became operational in December 2001.

With the addition of 26 MW in 2001, CHD currently owns and operates 47.4 MW of wind power, which represents the second largest wind plant installation in Canada. Each new turbine is twice the physical size of each existing Cowley Ridge turbine, and has 3.5 times the power output. The two new plants are expected to generate approximately 80,000 MWh per year, resulting in 80,000 tonnes of CO_2 greenhouse gas offsets. ENMAX Energy Corporation has contracted 35,000 MWh per year for five years.

The experienced team at Cowley Ridge managed the successful and under-budget construction of these two new wind plants, as well as the effective operation and maintenance of the existing 57 turbines. During 2001, only two new employees were added for wind plant operations. This represents a 15% increase in the employee base for a 121% increase in installed megawatts of wind generation. The existing infrastructure at our Cowley Ridge office will result in significant economies of scale for our wind plant expansion in 2002 and for future expansions. Everyone at Cowley Ridge is to be congratulated for their hard work and effort in making the wind plants a reality.

Pingston Hydroelectric Plant (30 MW; 15 MW net to CHD) - B.C.

In the spring of 2001, CHD and its Ontario-based 50% partner, Great Lakes Power, began construction of the run-of-river Pingston Hydroelectric Plant near Revelstoke, B.C. At year-end, approximately half of the construction was complete. A 4-kilometre tunnel will drop water 590 metres through 2 pelton turbines contained in the powerhouse below. This drop, or head, is the third highest in Canada for hydroelectric facilities. The plant is expected to be operational by the fourth quarter of 2002, and will generate approximately 160,000 MWh (80,000 MWh net to CHD) per year of emissions-free power. CHD plans to have this plant EcoLogo™ certified as it has done with all of its other hydroelectric facilities. Power from this facility is expected to be contracted for 20 years to B.C. Hydro.

PROJECTS IN DEVELOPMENT

Grande Prairie EcoPower™ Centre (25 MW) - Alberta

Canadian Gas & Electric Inc. (CG&E), wholly owned by CHD, will commence construction on this 25 MW biomass cogeneration plant in the spring of 2002. The plant will use Canadian Forest Products Ltd. (Canfor) wood waste to generate both electricity and steam for use in the adjacent Canfor Grande Prairie lumber mill and also provide electricity to the nearby Hines Creek lumber mill. The proposed design will be a showcase facility that will result in an estimated 85% reduction of particulate emissions from the mills through the removal of the existing wood residue incinerator. It will also reduce greenhouse gas emissions by over 160,000 tonnes per year through the displacement of other polluting power sources. The project will have a positive economic impact on the City of Grande Prairie through the creation of 20 new temporary and permanent jobs for its residents.

Canfor will purchase up to 10 of the 25 MW of capacity, resulting in approximately 33% of the power being under a "life-of-project" contract.

CANADIAN HYDRO DEVELOPERS

TAYLOR

PLANT

Operating Plants & Development Projects

OPERATING PLANTS

Province	Type	Plant	Capacity (MW)	Ownership	Power Purchaser	Contract Expiry
BC	hydro	Akolkolex	10.0	100%	BC Hydro	Apr 1, 2015
Alberta	hydro	Belly River	3.0	100%	TransAlta	Mar 28, 2011
	hydro	Waterton	2.8	100%	TransAlta	Nov 6, 2012
	hydro	St. Mary	2.3	100%	TransAlta	Dec 10, 2012
	hydro	Taylor	13.0	50%	Spot	n/a
	wind	Cowley Ridge	21.4	100%	TransAlta/ Shell/spot	Dec 31, 2013
	wind	Cowley North	19.5	100%	ENMAX/spot	Aug 31, 2006
	wind	Sinnott	6.5	100%	ENMAX/spot	Aug 31, 2006
	gas	Drywood	6.0	100%	Spot	n/a
Ontario	hydro	Ragged Chute	6.6	100%	OEFC [1]	Mar 7, 2006
	hydro	Moose Rapids	1.3	100%	OEFC [1]	Nov 13, 2027
	hydro	Appleton	1.4	100%	OEFC [1]	Mar 1, 2024
	hydro	Galetta	1.6	100%	OEFC [1]	Jan 15, 2009
Operating Projects						
		100% share	95.4			
		Company share	88.9			

DEVELOPMENT PROJECTS

Province	Type	Plant	Capacity (MW)	Ownership	Power Purchaser
BC	hydro	Pingston[2]	30.0	50%	BC Hydro
	hydro	Upper Mamquam	25.0	50%	Pursuing
Alberta	biomass	Grande Prairie EcoPower™ Centre	25.0	100%	Canfor/Pursuing
	hydro	Dunvegan	80.0	100%	Pursuing
	wind	Sinnott Infill	25	100%	Pursuing
	wind	Wind Prospects	75	100%	Pursuing
Ontario	hydro	Otonabee	5.6	100%	Pursuing
Development Projects					
		100% share	265.6		
		Company share	238.1		
Operating and development					
		100% share	361.0		
		Company share	327.0		

[1] Ontario Electricity Finance Corporation
[2] Under Construction

Operations Report

CANADIAN HYDRO DEVELOPERS

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DIVERSE

Operating Plants

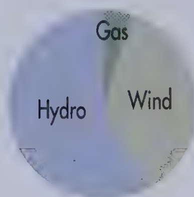
1	BC	hydro	Akolkolex
2	Alberta	hydro	Belly River
3		hydro	Waterton
4		hydro	St. Mary
5		wind	Cowley Ridge
6		wind	Cowley North
7		wind	Sinnott
8		hydro	Taylor
9		gas	Drywood
10	Ontario	hydro	Ragged Chute
11		hydro	Moose Rapids
12		hydro	Galetta
13		hydro	Appleton

Development Projects

14	BC	hydro	Pingston*
15		hydro	Upper Mamquam
16	Alberta	hydro	Dunvegan
17		wind	Sinnott Infill
18		wind	Wind Prospects
19		biomass	Grande Prairie
20	Ontario	hydro	Otonabee

*Under Construction

2001 Generation By Technology



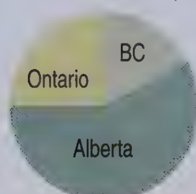
Wind - 33%
80,507 MWh

Hydro - 60%
147,328 MWh

Gas - 7%
17,278 MWh

Total
245,113 MWh

2001 Generation By Province



BC - 18%
44,432 MWh

Alberta - 57%
140,536 MWh

Ontario - 25%
60,145 MWh

Total
245,113 MWh

C O W L E Y
N O R T H

CG&E plans to contract up to 100,000 MWh annually, which represents approximately 50% of anticipated operating capacity, to third parties prior to commencement of construction. CG&E decided to contract the additional power in order to reduce the project's exposure to Alberta spot power prices, which have been highly volatile over the past 2 years. This $46 million construction project should be complete by the first quarter of 2003 and operational early in the third quarter of 2003. This showcase facility is expected to generate approximately 197,000 MWh per year (based on a 90% capacity factor). CG&E plans to have this plant EcoLogo™ certified.

Dunvegan Hydroelectric Plant (80 MW) - Alberta

In October 2001, the Alberta Energy and Utilities Board and the Natural Resources Conservation Board (collectively, the Board) commenced its joint hearing to approve the construction and operation of the 80 MW Dunvegan Hydroelectric Plant proposed by CHD's wholly-owned subsidiary, Glacier Power Ltd. The hearing was adjourned until June 17, 2002 in order to allow the Company to provide additional information with respect to the impact of the plant on fish migration and ice flows on the Peace River to the Department of Fisheries and Oceans Canada and Alberta Environment. Dunvegan's expected operational date of 2005 is contingent upon Board approval.

Dunvegan is designed as a low-head, run-of-river hydro plant on the Peace River. Due to the size and flow of the river, this plant is expected to operate at an 84% capacity factor, generating 585,000 MWh per year of emissions-free power, which represents an increase of 239% over CHD's 2001 electricity generation.

Upper Mamquam Hydroelectric Project (25 MW; 12.5 MW net) - B.C.

This project has been studied for development for several years with 50% partner, Great Lakes Power. Located in the Squamish area, just north of Vancouver, this project would be run-of-river, and is considered to be in the lower mainland area, which is favoured by B.C. Hydro for new generation due to high regional load. CHD has filed its water license application and is currently pursuing a long-term contract with B.C. Hydro for the sale of power. Should the Company obtain a contract from B.C. Hydro in 2002, the plant is expected to be operational in 2004.

Otonabee Hydroelectric Plant (5.6 MW) - Ontario

CHD obtained informal approval to construct this project in December 2001 and expects formal approval in early 2002. The run-of-river hydro facilities would be on two of the locks owned by the federal government on the Otanabee River section of the Trent-Severn Waterway near Peterborough. It is anticipated that output from these facilities would be sold as green power at premium prices. Timing of the project is contingent on deregulation proceeding in Ontario in May 2002 and on securing a market-based contract for the power generated.

Sinnott Infill Wind Plant (25 MW) - Alberta

CHD has optioned the remaining undeveloped portion of the lands where the existing 6.5 MW Sinnott Wind Plant is located. This optioned land will allow for the development of a wind plant that is at least 25 MW in capacity. Regulatory approvals and long-term power sale contracts are required prior to proceeding with this project. However, the introduction of the federal government wind incentive in 2002 (i.e. $12 per MWh of generation, reducing to $8 per MWh in the fifth year, for the first ten years of operation) significantly improves the economics of wind and, thus, the likelihood of this project proceeding.

Wind Prospects (75 MW) - Alberta

CHD has identified several ideal areas for wind development in Southern Alberta, and has optioned the land with owners. Wind monitoring stations have been erected and data is being collected in order to determine the optimal areas for future wind development. Again, regulatory approvals and long-term power sale contracts are required before these prospects can be developed. The federal government wind incentive program greatly enhances the likelihood of further development. ◆

CANADIAN HYDRO DEVELOPERS

COWLEY
RIDGE

Independent Asset Evaluation

McDaniel & Associates Consultants Ltd., a highly respected independent firm of engineers, has evaluated each CHD plant as of January 1, 2002. The purpose in engaging McDaniel & Associates is to provide investors and shareholders with third party confirmation of future cash flow estimates.

Using the McDaniel & Associates results, management has prepared the following "pre-tax net asset value" (as opposed to "fair market value") of the Company's fully diluted common shares outstanding. Value has been computed assuming a 10% discount factor on future cash flows of the Company's thirteen generating plants, projects under construction and certain development prospects.

Revenues can be predicted with some degree of reliability since the Company has, to varying degrees, sold forward approximately 80% of its output under long-term sales contracts. Using the discounted cash flows determined by the independent engineers, adjustments for long-term debt, other liabilities, working capital, and equity that would be received from potential exercise of warrants and options (to account for full dilution), have been made. The Company estimates that income taxes will not be payable for several years as substantially all the Company's tax pools are represented by accelerated tax write-off classes.

CASH FLOW, NET OF OPERATING EXPENSES, DISCOUNTED AT 10% (PRE-TAX): (1) (3)

	($ millions)
McDaniel & Associates evaluation @ 10%:	
- Operating plants and projects under construction(2)	185.4
- Development projects, risked at 50%(3)	54.5
Working capital deficit	(1.2)
Long-term debt, excluding current portion	(40.8)
Other liabilities	(10.1)
Potential exercise of options	4.6
Potential exercise of warrants	19.5
Net Asset Value, before income tax	211.9
Per Share (4)	$3.51

(1) Development Projects are risk adjusted by 50% of the estimated future cash flows discounted at a rate of 10%.
(2) Includes new projects added in 2001. Also includes certain projects that are under construction in 2001 (Pingston) and scheduled to commence construction in 2002 (Grande Prairie EcoPower™ Centre)
(3) Includes certain projects that are at various stages of permitting for construction, namely Upper Mamquam, Dunvegan, Sinnott Infill and Wind Prospects.
(4) Based on 60,431,423 fully diluted shares outstanding at December 31, 2001.
Using an 8% discount rate increases the pre-tax net asset value to $5.35 per share.
If only operating plants and projects under construction are considered, the pre-tax net asset value would be $2.61 per share.

MOOSE
RAPIDS

Management's Discussion and Analysis

The following MD&A should be read in conjunction with the audited Consolidated Financial Statements and related Notes included in this Annual Report.

Results of Operations

The year was marked with significant growth; from improved net income and record power generation, to the commencement of operations at the Cowley North and Sinnott Wind Plants, the ongoing construction of the Pingston Hydroelectric Plant, and site preparation for construction of the Grande Prairie EcoPower™ Centre. The addition of Cowley North and Sinnott contributed to the record power generation in 2001. Warm and dry weather in Southern Alberta resulted in windier conditions than normal, which further added to the record generation. Continued drought conditions in Alberta and British Columbia for most of 2001, as well as drought conditions in Ontario during the summer, resulted in lower production from the Company's hydroelectric plants, which offset some of the gains made from the wind generation in 2001. Lower average Power Pool of Alberta ("Pool") prices negatively impacted financial results, while a reduction in corporate income tax rates contributed positively to the Company's financial results in 2001.

The secret of success is constancy of purpose.

Gross Revenue

While net income improved in 2001, gross revenue decreased 12% to $15,608,120 compared to $17,745,163 in 2000 on record generation of 245,113 MWh in 2001 compared to 235,160 MWh in 2000. The decrease in revenue was primarily due to:

- Lower average Pool prices received on the Company's two merchant plants (12.5 MW) in 2001 compared to prior year (2001 - $81/MWh; 2000 - $171/MWh); and

- Lower hydroelectric generation, resulting from low 2000/2001 winter snow pack and an extremely dry summer in B.C. and Alberta, and an extremely dry summer in Ontario (2001 - 147,328 MWh; 2000 - 163,480 MWh); offset partially by:

- Higher wind generation, resulting from windier than normal conditions in Southern Alberta in 2001 compared to 2000, and the addition of Cowley North (19.5 MW) and Sinnott (6.5 MW) Wind Plants in the fourth quarter of 2001 (2001 - 80,507 MWh; 2000 - 59,766 MWh).

Approximately 84% of the Company's generation was sold pursuant to long-term sales contracts in 2001 (2000 - 83%). The average price received by the Company for electricity from all operations for 2001 was $64/MWh compared to $75/MWh in 2000.

CANADIAN HYDRO DEVELOPERS

BELLY
RIVER

Operating Expenses

Operating expenses decreased 15% to $5,192,229 in 2001 compared to $6,123,964 in 2000. The decrease was due primarily to the termination in 2000 of a 10 year power purchase agreement with EPCOR in respect of the Taylor Hydroelectric Plant.

Interest Expense, Long-Term Debt and Other Liabilities

Interest on long-term debt in 2001 decreased by 25% to $2,564,466 compared to $3,425,186 in 2000. The decrease in interest expense was due to lower average long-term debt on completed projects in 2001 compared to 2000. The lower long-term debt is a result of principal repayments and the $12 million Special Warrant common equity issue completed in October 2000.

Capitalized interest associated with construction-in-progress in 2001 was $889,943 compared to $193,321 in 2000. The increase was due to additional debt financing on July 31, 2001 for projects under construction throughout 2001.

Long-term debt (including current portion) as at December 31, 2001 was $45,009,568 compared to $32,650,396 as at December 31, 2000. The increase was due to the additional debt financing on July 31, 2001 as described above. The Company had $17,999,642 of undrawn credit facilities available for projects currently under construction as at December 31, 2001. Other liabilities of $10,071,759 as at December 31, 2001 (2000 - $nil) consist of accounts payable and accrued liabilities relating to construction-in-progress that will be repaid through available long-term credit facilities.

Administration Expense

Administration expense increased 20% to $1,261,476 in 2001 compared to $1,052,076 in 2000, which reflects increased rent, salary and benefit costs associated with increased operations. Capitalized administration costs associated with construction-in-progress in 2001 were $565,268 compared to $21,555 in 2000. The increase was due to a significantly greater number and size of projects under construction throughout 2001 compared to 2000.

Depreciation Expense

Depreciation expense increased 16% to $2,328,569 in 2001 (2000 - $2,015,727) due to the increased plant capacity acquired and constructed in Alberta in 2000.

Income Taxes

CHD has available tax pools of $82.7 million (2000 - $38.4 million) compared to book assets of $131.9 million (2000 - $73.4 million). The Company does not anticipate paying cash income taxes, other than in respect of the Cowley Ridge Wind Plant, through its wholly owned subsidiary, for several years. However, the Company is liable for the Federal Tax on Large Corporations and Provincial Capital Taxes in Ontario and British Columbia, which comprise the current tax provision.

The future income tax recovery in 2001 was $386,382 compared to a future income tax expense of $1,566,646 in 2000. The future income tax recovery was due to 2% and 8% decreases in Alberta and Ontario corporate income tax rates, respectively, that were enacted in Q2 2001, which positively impacted net earnings by $0.03 per share (diluted) in 2001.

Cowley Ridge Wind Power Inc. is fully taxable, but is entitled to recover approximately 175% of cash taxes paid annually (limited to 15% of eligible gross revenue) in accordance with the Revenue Rebate Regulation of the Alberta Small Power Research and Development Act. This Regulation will apply until the associated power sale agreements expire in 2013 (9.0 MW) and 2014 (9.9 MW).

Net Earnings and Cash Flow from Operations

Net earnings in 2001 increased 34% to $3,700,547 ($0.09 per share, diluted) from $2,770,303 ($0.10 per share, diluted) in 2000. The increase in net earnings was due to record electricity generation, lower operating costs, interest expense, and future income taxes, offset partially by lower average prices received for electricity, and higher administrative expenses in 2001 compared to 2000, as described above. The decrease in net earnings on a diluted per share basis was due to the equity issuances during the year, the proceeds of which are being used to finance the construction of new projects.

RAGGED
CHUTE

Cash flow from operations in 2001 decreased 11% to $5,649,434 ($0.14 per share, diluted) from $6,350,109 ($0.22 per share, diluted) in 2000. The decrease was due to lower average prices received for electricity, and higher administrative expenses, offset partially by record electricity generation, lower operating costs, and interest expense in 2001 compared to 2000, as described above. The decrease in cash flow from operations on a diluted per share basis was due to the equity issuances during the year, the proceeds of which are being used to finance the construction of new projects.

Capital Expenditures and Prospect Development Costs

Capital expenditures were $60,026,615 in 2001 (2000 - $9,545,114), resulting in an 80% increase in the net book value of capital assets. Prospect development costs were $3,128,566 in 2001 (2000 - $1,565,089). These significant investment activities are the result of CHD's current growth phase, and relate to construction costs and equipment purchases incurred for the Cowley North and Sinnott Wind Plants (26 MW), the Pingston Hydroelectric Plant (15 MW net), and the Grande Prairie EcoPower™ Centre (25 MW), as well as other prospects such as Dunvegan. The first of Cowley North's turbines became operational in September 2001. At year end, all fifteen turbines were erected with eleven operational. The five turbines at Sinnott became operational in December 2001.

Capital Resources and Liquidity

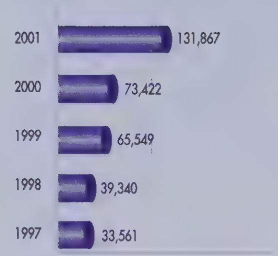
For the year ended December 31, 2001, the Company closed the following private placements for gross proceeds of $34,931,938 (net, before taxes - $33,059,673):

- 875,000 flow-through common shares at $3.55 per share, for gross proceeds of $3,106,250.
- 1,265,000 common shares at $2.85 per share, for gross proceeds of $3,605,250.
- 8,844,444 units at $2.25 per unit, for gross proceeds of $19,900,000. The units consist of 8,844,444 common shares and 4,422,222 share purchase warrants, exercisable into common shares at $2.35 per share, which expire on September 10, 2004.
- 842,050 flow-through common share purchase warrants at $3.55 per share for gross proceeds of $2,989,278.
- 1,130,000 flow-through common shares at $3.60 per share, for gross proceeds of $4,068,000.
- 631,580 common share purchase warrants were exercised into common shares at $2.00 per share, for gross proceeds of $1,263,160.

The proceeds from these private placements are being used to finance the Cowley North and Sinnott Wind Plants, Pingston Hydroelectric Plant, and the Grande Prairie EcoPower™ Centre.

Outstanding Share Data

	As at February 20, 2002 (unaudited)
Basic common shares	48,151,301
Convertible securities:	
Warrants	8,580,122
Options	3,700,000
	12,280,122
Fully diluted common shares	60,431,423



Capital Assets (NBV) - in $000's

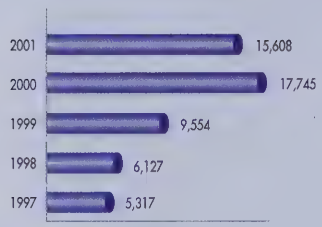
Outlook

CHD is a developer, owner and operator of thirteen existing electrical generating facilities: nine "run of river" hydroelectric plants, three wind plants and one natural gas-fired plant, totalling 88.9 MW net to the Company's interest. In addition, the Pingston Hydroelectric Plant (15 MW net) is currently under construction and approximately 223 MW are in various stages of permitting for construction in the next five years. All of the Company's plants and projects are located in British Columbia, Alberta, and Ontario. All of CHD's wind and water plants are certified under the EcoLogo™ program.

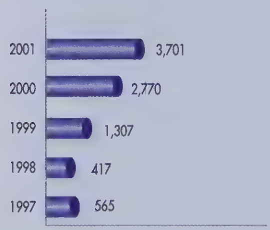
MD & A

AKOLKOLEX

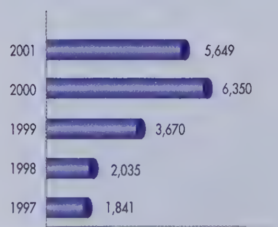
PLANT



Gross Revenue - in $000's



Net Earnings - in $000's



Cash Flow from Operations - in $000's

The addition of the Cowley North and Sinnott Wind Plants (26 MW) in 2001 is expected to positively impact the Company's financial results in 2002. The anticipated completion of the Pingston Hydroelectric Plant early in the fourth quarter of 2002 is also expected to positively impact financial results in 2002. While snow packs appear to have returned to normal levels in Alberta and B.C. this winter, it has yet to be determined if this will mark the end of the prolonged drought. Ontario is currently having an extremely wet, yet warm winter, which has positively impacted generation from the Ontario hydroelectric plants.

The Company's operations are based mainly on power generation from hydroelectric and wind resources. Because of this, CHD's financial results in one quarter may not be representative of all quarters. The Company's hydroelectric plants located in B.C. and Alberta (24.6 MW) typically have higher revenue during the second and third quarters due to higher water levels at the plants that operate all year, as well as the spring start up of the Belly River and Taylor Hydroelectric Plants that are located on irrigation works. The hydroelectric plants located in Ontario (10.9 MW) typically have higher revenue during the first and fourth quarters due to higher water levels during the winter in Ontario. CHD's wind generation plants (47.4 MW) typically have higher revenue in the first and fourth quarters, during the "windy season", however, these plants do not generate as much power as the Company's hydroelectric facilities. While geographical and technological diversification results in smaller quarterly fluctuations in financial results, management expects financial results from the second and fourth quarters to be higher than those from the first and third quarters for 2002.

The average spot market price for power in Alberta for January 2002 was $28/MWh, compared to $34/MWh for the month of December 2001, and $131/MWh for the month of January 2001. In 2002, fluctuations in spot market prices will affect revenues for the Drywood Plant (6 MW), the Taylor Hydroelectric Plant (6.5 MW net) and approximately 50% of the Cowley North and Sinnott Wind Plants, which sell their power on the spot market. Taylor only operates during the irrigation season in Alberta, which typically runs from May through September. The natural gas-fired and wind plants, however, primarily operate during on-peak hours, thereby generating higher power prices. Approximately 84% of the Company's power generation was sold under long-term contracts during 2001, which reduces the Company's exposure to variable spot prices.

Pool prices have declined significantly over the last year due to high storage levels of natural gas and a slowing economy, resulting in low natural gas and power prices. CHD's exposure to spot prices is relatively low due to a significant amount of the Company's power being sold under long-term contracts. The current industry conditions require new projects to have long-term contracts for the majority of their power generation in order to increase the likelihood of debt financing. CHD's strategy continues to

COWLEY
RIDGE

focus on obtaining long-term contracts for new projects, as well as obtaining a premium for the "green" attribute of the power.

The long-term fundamentals in Alberta continue to require significant additional power generation in the coming years. The current low power price environment will only cause delay to large power plant additions and, thus will only increase the potential for a future power supply shortage. With the announced federal government wind incentive, management is focusing its short-term development plans on wind generation, while continuing its long-term plans on hydroelectric and biomass generation. The Company continues to monitor the coming deregulation in Ontario in May 2002 and planned changes to regulations in B.C. for potential development opportunities.

Risk Factors

Risk factors associated with the development and operation of power generation plants relate to environmental concerns, business factors, and changes in government regulation. Should one or more of these risks materialize, actual results may vary materially from those currently anticipated.

Environmental

The Company's hydroelectric plants are subject to variations in precipitation and in the water flow of the watersheds upon which such plants are situated and the Company's wind plants are subject to variations in wind. CHD operates in three distinct regions of Canada as part of its strategy to diversify geographically since there is always the risk of prolonged drought in any one region. The Company's three wind plants and its Drywood natural gas-fired plant further assists in mitigating the risks associated with weather.

The risk of environmental damage during construction activities is also of concern to CHD. The Company mitigates this risk, where possible, by employing an environment, health and safety program, and by utilizing insurance and performance bonds to limit its financial exposure.

Regulatory and Political

CHD's operations are also subject to changes in governmental regulatory requirements or the applicable governing statutes, including regulations related to the environment, unforeseen environmental effects, general economic conditions and other matters beyond the control of the Company.

The operation of power generating plants is subject to extensive regulation by various government agencies at the municipal, provincial and federal level. There is always the risk of changes being made in government policies and laws, including rates for water rentals and for income, capital and municipal taxes, and for competitive market and political reasons. CHD closely monitors government activities, particularly in Alberta and Ontario where the process leading up to deregulation of the industry has resulted in a complete review and overhaul of all regulations governing the industry. Memberships with associations such as the Independent Power Associations in British Columbia, Alberta and Ontario, the Canadian Hydro Power Association, the Ontario Waterpower Association, and the Canadian Wind Energy Association provide the independent power industry with credibility and strength when necessary, to lobby for a competitive and level playing field.

CHD holds permits and licenses from various regulatory authorities for the construction and operation of its plants. These licenses and permits are critical to the operation of the Company's business. The majority of these permits and licenses are long term in nature, reflecting the anticipated useful life of the plants. These permits and licenses are dependent upon the Company's compliance with the terms thereof. In addition, delays may occur in obtaining necessary government approvals required for future power projects.

From time to time, and in order to secure long lead times often associated with ordering equipment, the Company may place orders for equipment and make deposits thereon or advance projects prior to obtaining all requisite permits and licenses. The Company only takes such actions where it reasonably believes that such licenses or permits will be forthcoming in due course prior to the requirement to expend the full amount of the purchase price.

Construction and Design

Delays and cost over-runs may occur in completing the construction of projects. Design or manufacturing flaws

may occur, which could conceivably not be covered by warranty or completion bonds. Management of CHD endeavours to obtain warranties and bonds in accordance with good business practice. Mechanical breakdown could occur in equipment after the period of warranty has expired, resulting in loss of production as well as the cost of repair. This risk is mitigated, where possible, by utilizing insurance in order to limit its financial exposure.

Business

Like all businesses, commerce related risks exist in day-to-day operations. Cancellation of sales contracts, the unexpected loss or departure of key employees, and increased competition are all factors that could present risk for any business and CHD is not immune. Where no long term contracts for the sale of power exist, the Company's operations are subject to market prices, which may negatively impact upon its financial performance.

Interest rate fluctuations are of particular concern to a capital-intensive industry such as the electric power business. The majority of CHD's long-term debt has fixed interest rates, and a significant portion of the long-term debt is through non-recourse project loans. In order to reduce its risks associated with variable interest rate long-term debt, the Company continually monitors long-term interest rates with a view of swapping its variable interest rates for fixed interest rates at reasonably appropriate times.

In addition, with the majority of CHD's electrical generation sold under long-term contracts to large utilities and select industrial customers, it has effectively built a "safety net" to protect from a significant loss of sales for several years. When these long-term contracts expire, however, the Company will face market price risks (unless new long-term contracts are entered into), as it currently does with its Drywood, Taylor Hydroelectric, and approximately 50% of Cowley North and Sinnott Wind plants, which sell electricity on a spot basis as "merchant" plants.

The Company seeks to reduce its exposure to the sale of electricity on a spot basis by entering into long-term contracts for the majority of its power generation. CHD expects to contract the sale of its power from its Pingston Hydroelectric plant for 20 years to B.C. Hydro, and plans to have the majority of power from its Grande Prairie EcoPower™ Centre sold under long-term contract prior to commencement of construction in 2002. A list of CHD's plants, related contracts and expiry dates are included in the Report on Operations section of this Annual Report.

Dependence Upon Management

Holders of securities of the Company must rely upon the experience and expertise of the management of CHD. The Company's continued success is dependent upon its ability to attract and retain experienced management. The Company is currently developing a succession plan in order to reduce the risk of loss to key management. In addition, CHD has key man insurance of $1 million on each of the Chief Executive Officer and Chief Operating Officer.

Competition

The Company competes with other companies that may have significantly greater financial and other resources.

Additional Financing

To the extent that external sources of capital, including the issuance of additional securities of the Company become limited or unavailable, CHD's ability to make the necessary capital investments to construct new plants or maintain its existing plants and remain in business will be impaired. There can be no assurance that additional financing will be available or, if available, will be on reasonable terms. If financing is obtained by issuing treasury Common Shares, investors may suffer dilution to their holdings of securities of the Company. ◆

Management's Report

To the Shareholders of Canadian Hydro Developers, Inc.:

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Both the financial and operating information presented in the Annual Report are consistent with that shown in the consolidated financial statements.

Management has implemented appropriate systems of internal control to provide reasonable assurance that all transactions are properly authorized, assets are safeguarded and financial records are maintained to facilitate the preparation of reliable and timely consolidated financial statements.

Deloitte & Touche LLP, an independent firm of Chartered Accountants, has been engaged to examine the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion. The Audit Committee of the Board of Directors, with all of its members being outside directors, has reviewed the consolidated financial statements including the notes thereto with management and Deloitte & touche LLP. The consolidated financial statements have been approved by the board of Directors on the recommendation of the Audit Committee.

Chief Executive Officer
February 1, 2002

Chief Financial Officer

Auditors' Report

To the Shareholders of Canadian Hydro Developers, Inc.:

We have audited the consolidated balance sheets of Canadian Hydro Developers, Inc. as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Calgary, Alberta
February 1, 2002

Deloitte & Touche LLP
Chartered Accountants

CANADIAN HYDRO DEVELOPERS

YEARS ENDED DECEMBER 31

	2001 $	2000 $
REVENUE		
Electric energy sales	**15,038,615**	17,223,053
Revenue rebate (Note 8)	**569,505**	522,110
	15,608,120	17,745,163
EXPENSES		
Operating	**5,192,229**	6,123,964
Interest on long-term debt	**2,564,466**	3,425,186
Depreciation	**2,328,569**	2,015,727
Administration	**1,261,476**	1,052,076
	11,346,740	12,616,953
EARNINGS BEFORE INCOME TAXES	**4,261,380**	5,128,210
INCOME TAX (RECOVERY) EXPENSE (Note 9)		
Current	**947,215**	791,261
Future	**(386,382)**	1,566,646
	560,833	2,357,907
NET EARNINGS	**3,700,547**	2,770,303
RETAINED EARNINGS, BEGINNING OF YEAR	**5,571,085**	3,766,039
Adjustment for 1999 future income taxes (Note 2)	**-**	(965,257)
RETAINED EARNINGS, END OF YEAR	**9,271,632**	5,571,085
Earnings per share (Note 10)		
Basic	**0.10**	0.10
Diluted	**0.09**	0.10

APPROVED BY THE BOARD

Director

David Stevens

Director

Financial Statements

Consolidated Balance Sheets

CANADIAN HYDRO DEVELOPERS

December 31

	2001 $	2000 $
ASSETS		
CURRENT		
Cash	**147,181**	161,830
Accounts receivable	**4,665,142**	3,612,443
Revenue rebate (Note 8)	**569,505**	522,110
Prepaid expenses	**161,344**	161,126
	5,543,172	4,457,509
Capital assets (Note 4)	**131,867,137**	73,422,389
Prospect development costs	**3,240,646**	3,020,469
TOTAL ASSETS	**140,650,955**	80,900,367
LIABILITIES		
CURRENT		
Income taxes payable	**177,162**	-
Accounts payable and accrued liabilities	**2,314,877**	2,677,909
Current portion of long-term debt (Note 6)	**4,229,814**	1,735,970
	6,721,853	4,413,879
Other liabilities (Note 5)	**10,071,759**	-
Long-term debt (Note 6)	**40,779,754**	30,914,426
Future income taxes (Note 9)	**17,081,710**	13,846,106
	74,655,076	49,174,411
SHAREHOLDERS' EQUITY		
Share capital (Note 7(b))	**55,574,470**	14,744,460
Warrants (Note 7(c))	**1,149,777**	11,410,411
Retained earnings	**9,271,632**	5,571,085
	65,995,879	31,725,956
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**140,650,955**	80,900,367

CONSOLIDATED STATEMENTS OF CASH FLOW

CANADIAN HYDRO DEVELOPERS

YEARS ENDED DECEMBER 31

	2001 $	2000 $
OPERATING ACTIVITIES		
Net earnings	**3,700,547**	2,770,303
Adjustments for:		
Depreciation	**2,328,569**	2,015,727
Future income tax (recovery) expense	**(386,382)**	1,566,646
Loss (gain) on sale of capital assets	**6,700**	(2,567)
Cash flow from operations	**5,649,434**	6,350,109
Changes in non-cash working capital (Note 11)	**(2,185,047)**	(2,517,898)
	3,464,387	3,832,211
FINANCING ACTIVITIES		
Issue of common shares, net of issue costs (Note 7(b))	**29,268,450**	76,800
Issue of warrants, net of issue costs (Note 7(c))	**3,882,223**	11,052,096
Issue of common shares in subsidiary (Note 3(a))	**-**	200,000
Revolving credit facility repayments, net	**(5,600,000)**	(7,427,400)
Long-term debt advances	**20,095,358**	-
Long-term debt repayments	**(2,136,186)**	(1,532,533)
	45,509,845	2,368,963
INVESTING ACTIVITIES		
Capital asset additions	**(45,915,247)**	(4,912,607)
Prospect development costs	**(3,098,109)**	(1,296,089)
Proceeds on sale of capital assets	**24,475**	7,000
	(48,988,881)	(6,201,696)
NET DECREASE IN CASH	**(14,649)**	(522)
CASH, BEGINNING OF YEAR	**161,830**	162,352
CASH, END OF YEAR	**147,181**	161,830
Cash flow from operations per share (Note 10)		
Basic	**0.15**	0.23
Diluted	**0.14**	0.22
SUPPLEMENTAL INFORMATION		
Interest paid	**3,456,103**	3,425,186
Income and capital taxes paid	**769,440**	792,866
Capital assets acquired	**60,026,615**	9,545,114
Prospect development costs incurred	**3,128,566**	1,565,089

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Canadian Gas & Electric Inc., Cowley Ridge Wind Power Inc. ("Cowley"), Glacier Power Ltd., Canadian Hydro Developers (B.C.) Inc., Canadian Hydro Developers (Ontario) Inc. and Canadian Hydro Marketing Inc. The latter company is inactive.

Financial instruments

A portion of the Company's electrical energy sales are sold on a spot basis in Alberta and, as such, the Company is exposed to commodity price risk. The Company mitigates this risk by entering into long-term contracts for the sale of the majority of its electrical generation to third parties. For the year ended December 31, 2001, 84% (2000 - 83%) of the Company's electrical generation was sold under long-term contracts.

The Company makes significant purchases of equipment for the construction of new electrical generating plants with foreign suppliers and, as such, is exposed to foreign exchange risk. The Company mitigates this risk by fixing the exchange rate with suppliers prior to the purchase of equipment, when possible.

The carrying value of accounts receivable, revenue rebate and accounts payable approximates their fair value at December 31, 2001 and 2000 with minimal credit risk. The vast majority of sales contracts are with large utility customers with extensive operations in British Columbia, Alberta and Ontario.

The Company's long-term debt is comprised of a revolving credit facility, term loans, mortgages and promissory notes. The fair value of the Company's term loan, mortgages and promissory notes have not been determined as management is of the opinion that it has mitigated any risk associated with this long-term debt by entering into fixed rate revenue contracts of similar or longer duration. The interest rates for the revolving credit facility and reducing committed term loan reflect current market rates and, as such, book value of the revolving credit facility and reducing committed term loan approximate market value. As the Company is exposed to interest risk, long-term interest rates are continually monitored with a view of swapping its variable interest rates for fixed interest rates at reasonably appropriate times.

Electric operations

Electrical energy sales are recognized at the time of generation and delivery to the purchasing utility as metered at the point of interconnection with the transmission system.

Hydroelectric generating plants are carried at cost which consists of direct labour, material and equipment costs, engineering, related administrative costs and interest incurred during construction. Depreciation is provided for on a straight-line basis over the service life of the Company's generating plants. Management estimates hydroelectric plants to have a 40 year useful life, while wind energy and natural gas plants are depreciated over a 20 to 30 year remaining useful life. The estimated service life of electric generating plants is subject to periodic review and as a consequence, may change in the future. Such changes will be implemented on a remaining service life basis.

Certain hydroelectric activities of the Company are conducted jointly with others and accordingly, the accounts reflect only the proportionate interest of the Company.

Vehicles, equipment and other

Vehicles, equipment and other assets are recorded at cost and are depreciated using the declining-balance method over their estimated useful lives at rates ranging from 10% to 50%.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prospect development costs

The Company accumulates costs associated with electric site prospect development activities. Recovery of these costs is dependent upon the successful completion of the related projects. Costs associated with successful projects are reclassified as capital assets and amortized over the useful life of the projects. Costs of unsuccessful projects are written off in the year the prospect is abandoned.

Flow-through shares and warrants

Share capital includes flow-through shares and warrants issued pursuant to certain provisions of the Income Tax Act (Canada) (the "Act"). Under the Act, where the proceeds are used for eligible expenditures, the related income tax deductions may be renounced to subscribers. Share capital is reduced and future income tax liability is increased by an amount equal to the estimated future income taxes payable by the Company as a result of the renunciations.

Stock-based compensation

The Company has a stock-based compensation plan that is described in Note 7(d). No compensation expense is recognized when stock options are issued. The consideration paid by employees upon exercise of stock options is credited to share capital.

Income taxes

Income taxes are calculated using the liability method. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. Temporary differences arising on acquisitions result in future income tax liabilities or assets.

2. CHANGE IN ACCOUNTING STANDARDS

Effective January 1, 2001, the Company retroactively adopted the new standards for presentation and disclosure of earnings per share as recommended by the Canadian Institute of Chartered Accountants. The new standard relates to the computation, presentation and disclosure of earnings per share and cash flow from operations per share. Under the new standard, the treasury stock method is used to determine the dilutive effect of stock options and warrants. Only "in the money" dilutive instruments impact the diluted calculations. The effect of the new standard for the year ended December 31, 2001 was an increase of $Nil (2000 - $Nil) to diluted earnings per share and $Nil (2000 - $0.01) to diluted cash flow from operations per share.

Effective January 1, 2000, the Company adopted the new accounting recommendation of the Canadian Institute of Chartered Accountants for accounting for income taxes using the liability method. The new policy was applied retroactively and resulted in the following adjustments to the opening 2000 financial statements; a $189,000 increase in capital assets, a $965,257 decrease in retained earnings, and a $1,154,257 increase in future tax liability.

3. ACQUISITIONS

(a) Acquisition of minority interest in Canadian Gas & Electric Company Ltd.

The Company incorporated a new subsidiary, Canadian Gas & Electric Company Ltd. ("CG&E") in 1998, in order to pursue natural gas fuelled generation plants. Integral to their employment with the Company, two officers of CG&E were each granted options to purchase 100,000 common shares of CG&E representing a total of 20% of the then issued and outstanding share capital of the subsidiary. The $1.00 option price to these employees was the same price per share as the Company paid for its shares in CG&E. These options were exercised by the officers on October 19, 2000, and subsequently, 200,000 shares in CG&E were issued. On October 20, 2000, the Company acquired the remaining 20% outstanding CG&E shares with a fair market value of $1,480,000, based on an independent appraisal of CG&E's net assets, (see Note 12(b)) from the two officers of CG&E. The shares were acquired in exchange for 800,000 shares (see Note 12(b)) of the Company with a market value of $1,480,000 on that date.

The purchase price for the acquisition of the 20% minority interest was allocated as follows:

	$
Capital assets	1,200,000
Prospect development costs	80,000
	1,280,000
Cash received from CG&E shares	200,000
Purchase price	1,480,000

(b) Hydroelectric plants

Effective August 1, 2000, the Company purchased the remaining 20.5% minority interest in three southern Alberta hydroelectric plants.

4. CAPITAL ASSETS

The major categories of capital assets at cost and related accumulated depreciation are as follows:

	2001			2000		
	Cost $	**Accumulated Depreciation $**	**Net Book Value $**	Cost $	Accumulated Depreciation $	Net Book Value $
Generating plants						
- operating	**120,765,807**	**12,271,023**	**108,494,784**	83,540,824	10,377,470	73,163,354
- construction-in-progress	**22,457,002**	**-**	**22,457,002**	44,991	-	44,991
Vehicles	**398,153**	**226,540**	**171,613**	281,848	145,821	136,027
Equipment, other	**1,141,291**	**397,553**	**743,738**	190,850	112,833	78,017
	144,762,253	**12,895,116**	**131,867,137**	84,058,513	10,636,124	73,422,389

Interest costs of $889,943 (2000 - $193,321) and administration expenses of $565,268 (2000 - $21,555) associated with the construction-in-progress have been capitalized during construction.

5. OTHER LIABILITIES

Other liabilities consist of accounts payable and accrued liabilities relating to construction-in-progress that will be repaid through available long-term credit facilities (see Note 6). Subsequent to December 31, 2001, the Company has submitted drawdown notices to its corporate bankers for borrowings under its credit facilities for $3,930,002 of $10,071,759. Upon completion of the related projects, it is the Company's intention to convert the balance of the revolving construction facility to a term loan.

6. LONG-TERM DEBT

The Company's credit facilities with its corporate bankers are as follows:

	2001			
	Total Approved Facilities $	Drawn as Letters of Credit/ Guarantee $	Drawn as Borrowings $	Undrawn Available Facilities $
Revolving construction facility	18,000,000	(3,015,000)	(1,000,000)	13,985,000
Reducing committed term loan	37,000,000	(12,890,000)	(20,095,358)	4,014,642
Term loan	3,360,000	-	(3,360,000)	-
	58,360,000	(15,905,000)	(24,455,358)	17,999,642
Principal repayments	-	-	680,000	-
	58,360,000	(15,905,000)	(23,775,358)	17,999,642

	2000			
	Total Approved Facilities $	Drawn as Letters of Credit/ Guarantee $	Drawn as Borrowings $	Undrawn Available Facilities $
Revolving construction facility	25,000,000	(1,480,000)	(6,600,000)	16,920,000
Reducing committed term loan	-	-	-	-
Term loan	3,560,000	-	(3,560,000)	-
	28,560,000	(1,480,000)	(10,160,000)	16,920,000
Principal repayments	-	-	-	-
	28,560,000	(1,480,000)	(10,160,000)	16,920,000

Of the undrawn available reducing committed term loan, $4,014,642 was used to secure a letter of credit, which will be drawn upon in 2002 for the purchase of equipment on projects completed at year end. The facilities are secured by a first fixed and floating charge debenture on all plants and subsidiary companies, with the exception of Cowley, a second charge debenture on Cowley, security interest over all present and after acquired personal property, a floating charge over all real property, and an assignment of certain sales agreements.

6. LONG-TERM DEBT (Continued)

	2001 **$**	2000 $
Revolving credit facility		
Revolving construction credit facility, bearing interest at prime plus 1.25% (2000 - prime plus 0.5%), with interest payable monthly	**1,000,000**	6,600,000
Long-term debt		
Reducing committed term loan, bearing interest at prime plus 0.75%. Monthly repayments are $200,000 plus interest commencing November 30, 2001	**19,695,358**	-
Term loan, bearing interest fixed at 7.38% until April 30, 2003. Monthly repayments are $40,000 plus interest until April 30, 2008	**3,080,000**	3,560,000
	23,775,358	10,160,000
Mortgage, bearing interest at 10.7% and secured by letters of guarantee (2000 - secured by Akolkolex Hydroelectric Plant). Monthly payments of principal and interest are $83,927 until May 31, 2010	**5,566,566**	5,954,160
Mortgage, bearing interest at 10.68%, secured by letters of guarantee (2000 - secured by Alberta hydroelectric plants). Monthly repayments of principal are $31,250 plus interest until December 30, 2012	**4,125,000**	4,500,000
Promissory note, bearing interest fixed at 6%, secured by a second fixed charge on 20.5% of the Alberta hydroelectric plants. Monthly repayments of principal and interest are $19,348 until August 1, 2012	**1,832,456**	1,952,114
Mortgage on Cowley, bearing interest at 10.867%, secured by the plant, related contracts and a reserve fund for $725,000 that has been provided for by a letter of credit to the lender. Monthly repayments of principal and interest are $120,960 until December 15, 2013	**9,710,188**	10,084,122
	21,234,210	22,490,396
	45,009,568	32,650,396
Less current portion	**4,229,814**	1,735,970
Long-term debt and revolving credit facility	**40,779,754**	30,914,426

Financial Statements

6. LONG-TERM DEBT (Continued)

Principal repayments for the long-term debt for each of the five succeeding years are as follows:

	$
2002	4,229,814
2003	4,333,617
2004	4,448,776
2005	4,576,555
2006	4,718,359

7. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares
Unlimited number of preferred shares, to be issued in series

(b) Issued, common shares

	2001		2000	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance, beginning of year	**28,062,427**	**14,744,460**	27,137,427	13,187,660
Issued as common shares	**10,229,444**	**22,618,273**	-	-
Conversion of October special warrants	**5,415,800**	**9,784,430**	-	-
Issued as flow-through shares	**2,005,000**	**7,174,250**	-	-
Conversion of warrants	**900,000**	**1,625,981**	-	-
Conversion of flow-through warrants	**842,050**	**2,829,540**	-	-
Exercise of warrants	**631,580**	**1,263,160**	-	-
Issued on exercise of stock options	**65,000**	**91,000**	125,000	76,800
Tax effect of flow-through share renunciations	**-**	**(3,508,450)**	-	-
Share issue costs, net of tax effect of $567,259	**-**	**(1,048,174)**	-	-
Issued on purchase of subsidiary	**-**	**-**	800,000	1,480,000
Balance, end of year	**48,151,301**	**55,574,470**	28,062,427	14,744,460

(c) Warrants

	2001		2000	
	Number of Shares	**Amount $**	Number of Shares	Amount $
Balance, beginning of year	**6,315,800**	**11,410,411**	-	-
Issued as flow-through warrants	**842,050**	**2,989,278**	-	-
Issued as warrants	**4,422,222**	**1,149,777**	6,315,800	12,000,000
Conversion of October special warrants	**(5,415,800)**	**(9,784,430)**	-	-
Conversion of warrants	**(900,000)**	**(1,625,981)**	-	-
Conversion of flow-through warrants	**(842,050)**	**(2,829,540)**	-	-
Warrant issue costs net of tax effect of $97,095 (2000 - $358,315)	**-**	**(159,738)**	-	(589,589)
Balance, end of year	**4,422,222**	**1,149,777**	6,315,800	11,410,411

Financial Statements

7. SHARE CAPITAL (Continued)

On June 8, 2001, the Company filed a prospectus to qualify for distribution 5,415,800 common shares issuable on the exercise of an aggregate of 5,415,800 series A and B special share purchase warrants (the "October special warrants"), 2,707,900 common share purchase warrants, 631,580 Agents' purchase warrants, and 842,050 common shares issuable on the exercise of flow-through share purchase warrants (the "flow-through warrants"). As a result of the prospectus, the above shares and warrants were issued on June 13, 2001. In addition, 900,000 October special warrants were exercised into 900,000 common shares and 450,000 common share purchase warrants prior to the filing of the prospectus. The remaining 3,157,900 warrants outstanding as at December 31, 2001 entitle the holder to acquire one common share at a price of $2.00 per share on or before October 31, 2002. If the common shares of the Company trade over $3.99 per share for 20 consecutive days before the expiry date, the Company can call for the exercise of the share purchase warrants. For accounting purposes, no value has been attributed to the common share purchase warrants.

On March 8, 2001, the Company completed a private placement totalling 842,050 flow-through warrants, at $3.55 per warrant, for gross proceeds of $2,989,278, which were converted into 842,050 common shares on June 13, 2001. On May 23, 2001 and July 19, 2001, the Company completed private placements totalling 2,005,000 common shares, issued on a flow-through basis, at subscription prices of $3.60 and $3.50 per share, for gross proceeds of $7,174,250. Qualifying expenditures of $10,163,528 were incurred in 2001, and income tax benefits of $3,508,480 were renounced to subscribers at December 31, 2001.

On July 16, 2001, the Company completed a private placement with a third party of 1,265,000 common shares at a subscription price of $2.85 per share, for gross proceeds of $3,605,250. In addition, 1,000,000 share purchase warrants, exercisable into common shares at $3.27 per share, which expire on July 31, 2004, were issued. In conjunction with the private placement, 631,580 previously issued Agent's warrants, were purchased by the third party. The third party exercised the 631,580 warrants on December 31, 2001. For accounting purposes, no value has been attributed to the common share purchase warrants.

On September 10 and 28, 2001, the Company completed private placements of 8,844,444 units at a subscription price of $2.25 per unit, for gross proceeds of $19,900,000. The units consisted of 8,844,444 common shares and 4,422,222 share purchase warrants, exercisable into common shares at $2.35 per share, which expire on September 10, 2004. For accounting purposes and using the Black Scholes pricing model, $0.26 has been attributed to each common share purchase warrant.

On September 13, 2001, the Company issued 120,000 common shares, priced at a fair market value of $262,800, to a third party as consideration for the lease of certain properties owned by the third party.

On October 19, 2000, the Company completed a private placement of 6,315,800 special warrants for gross proceeds of $12 million. Each special warrant represents one common share and one-half share purchase warrant. One whole warrant entitles the holder to purchase an additional common share at $2.00 until October 31, 2002. If the stock trades over $3.99 for 20 consecutive days before the expiry date, the Company can call for the exercise of the share purchase warrants. The net proceeds were used to repay a portion of the outstanding revolving credit facility.

In conjunction with the October 19, 2000 offering, the Company issued compensation warrants to the agents in the offering to purchase 631,580 common shares with the same conditions as the share purchase warrants in the offering.

7. SHARE CAPITAL (Continued)

(d) Options

The Company has a stock option plan under which the Board of Directors may grant stock options to directors, officers, employees, and other persons considered key to the Company's operations at an exercise price equal to the market price of the Company's common shares at the time of grant. Options issued prior to April 25, 2001 under the plan vested at the time the option was granted, whereas options issued thereafter vest at the rate of 25% on each anniversary date of the option grant. All outstanding options are granted for a ten year term. The total number of options outstanding must not exceed 10% of the total common shares outstanding. At December 31, 2001, the Company had outstanding options to issue 3,700,000 common shares (2000 - 3,135,000).

Options reconciliation table:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 1999	2,745,000	$0.81
Granted	515,000	$1.93
Exercised	(125,000)	$0.61
Outstanding at December 31, 2000	3,135,000	$1.01
Granted	630,000	$2.39
Exercised	(65,000)	$1.59
Outstanding at December 31, 2001	3,700,000	$1.24

The following table summarizes information about stock options outstanding at December 31, 2001:

Expiry	Options	Exercise Price	Weighted Average Contractual Life (Years)	Number of Shares Exercisable
September 6, 2005	500,000	$0.50	3.7	500,000
September 6, 2005	50,000	$0.81	3.7	50,000
February 10, 2007	880,000	$0.63	5.1	880,000
January 5, 2008	500,000	$1.00	6.0	500,000
July 6, 2008	450,000	$1.25	6.5	450,000
July 16, 2008	50,000	$1.38	6.5	50,000
September 30, 2008	40,000	$1.00	6.8	40,000
September 8, 2009	100,000	$0.85	7.7	100,000
October 23, 2010	400,000	$1.90	8.8	400,000
December 4, 2010	100,000	$2.10	8.9	100,000
May 24, 2011	200,000	$3.20	9.4	-
June 26, 2011	75,000	$2.75	9.5	-
September 13, 2011	315,000	$1.85	9.7	-
November 13, 2011	40,000	$1.95	9.9	-
	3,700,000			3,070,000

Financial Statements

8. REVENUE REBATE

The revenue rebate is paid by Transalta Utilities Corporation in accordance with the Revenue Rebate Regulation of the Alberta Small Power Research and Development Act, which will apply until the associated power sale agreements expire in 2013 and 2014. The revenue rebate is based on the federal cash taxes paid by Cowley.

9. INCOME TAXES

The components of the future income tax liability at December 31, 2001 and 2000 are as follows:

	2001	2000
	$	$
Future income tax liabilities		
Capital assets	**(16,985,811)**	(13,266,520)
Prospect development costs	**(1,063,058)**	(1,141,738)
Future income tax assets		
Non-capital loss carryforwards	**32,135**	155,196
Capital loss carryforwards	**90,917**	-
Share issue costs	**844,107**	406,956
Net future income tax liability	**(17,081,710)**	(13,846,106)

Total income taxes are different than the amount computed by applying the combined expected Canadian and Provincial tax rates of 42.31% (December 31, 2000 - 43.90%) to income before taxes.

This difference results from the following:

	2001	2000
	$	$
Effective tax rate	**42.31%**	43.90%
Computed expected tax	**1,802,990**	2,251,284
- impact of effective tax rate reduction on future tax liability	**(1,584,247)**	(231,782)
- large corporations tax and provincial capital taxes	**364,367**	262,000
- other	**(22,277)**	76,405
Provision for income taxes	**560,833**	2,357,907
Comprised of:		
Current	**947,215**	791,261
Future	**(386,382)**	1,566,646
	560,833	2,357,907

10. EARNINGS AND CASH FLOW FROM OPERATIONS PER SHARE

The following table shows the dilutive effect of dilutive securities on the weighted average common shares outstanding. No adjustments to earnings or cash flow from operations were required for the calculation of diluted earnings and diluted cash flow from operations per share.

	2001 Number of Shares	2000 Number of Shares
Basic weighted average shares outstanding	**36,450,241**	27,376,389
Effect of dilutive securities:		
Warrants	**3,438,769**	-
Options	**1,889,915**	1,466,711
Diluted weighted average shares outstanding	**41,778,925**	28,843,100

11. CHANGES IN NON-CASH WORKING CAPITAL

	2001 $	2000 $
Changes in non-cash working capital		
Accounts receivable	**(1,052,699)**	(2,022,442)
Revenue rebate	**(47,395)**	58,968
Prepaid expenses	**(218)**	(90,259)
Income taxes payable	**(177,162)**	-
Accounts payable and accrued liabilities	**(907,573)**	(464,165)
	(2,185,047)	(2,517,898)

12. RELATED PARTY TRANSACTIONS

(a) Electric energy sales

In connection with the acquisition of a former subsidiary and as payments for certain engineering services, a gross overriding royalty of 2% is payable by the Company on electric energy sales on certain of the Company's hydroelectric plants to a company controlled by a director and officer of the Company. During the year, royalties totalling $31,812 (2000 - $48,754) were paid.

(b) CG&E share purchase

On October 20, 2000, the Company acquired the remaining 20% outstanding CG&E shares with a fair market value of $1,480,000, based on an independent appraisal of CG&E's net assets (see Note 3(a)) from two officers of CG&E. The shares were acquired in exchange for 800,000 shares (see Note 3(a)) of the Company with a market value of $1,480,000 on that date.

13. COMMITMENTS AND CONTINGENCIES

(a) The Company has a sub-lease agreement with Ontario Power Generation ("OPG") for the 6.6 MW Ragged Chute Hydroelectric Plant which may require the Company to provide OPG with vacant possession of the site at the expiration of the lease term in 2004. An estimate of the future removal and site restoration costs associated with this potential event cannot be reasonably determined at this time.

(b) In the ordinary course of maintaining plants and equipment, and in constructing new projects, the Company routinely enters into contracts for goods and services. Subsequent to December 31, 2001, the Company has committed to purchase turbine and generating equipment for approximately $5 million for the Pingston Hydroelectric and Grande Prairie EcoPower™ Centre projects. These projects will be completed over the next two years.

(c) The Company is committed to sell 71% of its capacity, which represented 84% of its electrical generation for the year ended December 31, 2001, to several third parties under long-term contracts maturing from 2006 to 2027.

(d) In 2000, the Company entered into a joint venture agreement (the "Agreement") with First Canadian Electric Inc. ("FCE"), for the expansion of the existing 6 MW gas-fired Drywood Plant by a further 7.5 MW facility (the "Expansion"). Under the Agreement, FCE was solely responsible for funding the construction of the Expansion. In addition, the Agreement stipulated that upon satisfactory completion and commissioning of the Expansion, the Company would transfer 40% ownership of the existing 6.0 MW Drywood Plant to FCE and FCE would transfer 60% ownership of the Expansion to the Company, at no cost to the Company.

In order to facilitate FCE's involvement in the joint venture, and to assist FCE with financing for the construction of the Expansion, the Company acted as guarantor for a $1,300,000 demand loan that FCE had entered into with its lender (the "Loan"). In consideration for the Company's guarantee, FCE entered into an Indemnity Agreement with the Company, the terms of which are now the subject of a dispute between the Company and FCE.

During 2001, FCE was unable to complete construction of the Expansion. Approximately $3,000,000 in liens (the "Liens") have been filed against the property on which the Expansion is located, the validity of which have not been determined. In addition, the Company has been named in statements of claim filed against FCE for approximately $500,000.

FCE has filed a lawsuit against the Company claiming $4,000,000 in damages. The Company believes FCE's lawsuit is without merit and is currently preparing a statement of claim against FCE.

The Company does not expect the outcome of these proceedings will have a material adverse effect on the Company's financial position or results of operations, although no assurance can be given in this regard. The Company's potential financial obligation, if any, is unknown and indeterminable at this time and no provision in the financial statements has been made at December 31, 2001.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

Corporate Information

MANAGEMENT:

Guido C. Bachmann, P.Eng.
Vice President,
Thermal Operations
President,
Canadian Gas & Electric Inc.

Kent E. Brown, CA
Chief Financial Officer

M. Ann Hughes, LLB
General Counsel and
Corporate Secretary

William A. Johnson, R.P. Bio
Vice President,
Environmental Management

John D. Keating, CA
Chief Executive Officer

J. Ross Keating, P.Eng
President and Chief
Operating Officer

Gavin S. Lowe,
Operations Manager,

Lewis Manning, LLB
Vice President,
Canadian Gas & Electric Inc.

Angelito de la Paz, CGA
Treasurer

DIRECTORS:

Kevin J. Brown[1]
Calgary, Alberta

Dennis M. Erker[1,2]
Edmonton, Alberta

John D. Keating
Calgary, Alberta

J. Ross Keating
Calgary, Alberta

JR Shaw
Calgary, Alberta

David J. Stenason[1]
Montreal, Quebec

[1] Member of Audit & Compensation Committee
[2] Board Chair

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta; Vancouver, British Columbia; Toronto, Ontario

SHARE STRUCTURE

Common issued and outstanding	49,151,301
Fully diluted common shares	60,591,423

HEAD OFFICE

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Tel: (403) 269-9379
Fax: (403) 244-7388
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Internet: http://www.canhydro.com

AUDITORS

Deloitte & Touche LLP
Calgary, Alberta

BANKERS:

National Bank of Canada
Toronto-Dominion Bank, Calgary

INDEPENDENT ENGINEERS:

McDaniel & Associates Consultants Ltd.,
Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange "KHD"

the future is the past repeated... but only without the mistakes

In keeping with Canadian Hydro Developers' commitment to the environment, the paper used for this annual report has been supplied from a sustainable forest program and manufactured using a 100% chlorine-free bleaching process that significantly reduces air emissions. This paper contains 50% recycled and 20% post consumer fibre. The entire report is printed with vegetable-based inks.

13. COMMITMENTS AND CONTINGENCIES

(a) The Company has a sub-lease agreement with Ontario Power Generation ("OPG") for the 6.6 MW Ragged Chute Hydroelectric Plant which may require the Company to provide OPG with vacant possession of the site at the expiration of the lease term in 2004. An estimate of the future removal and site restoration costs associated with this potential event cannot be reasonably determined at this time.

(b) In the ordinary course of maintaining plants and equipment, and in constructing new projects, the Company routinely enters into contracts for goods and services. Subsequent to December 31, 2001, the Company has committed to purchase turbine and generating equipment for approximately $5 million for the Pingston Hydroelectric and Grande Prairie EcoPower™ Centre projects. These projects will be completed over the next two years.

(c) The Company is committed to sell 71% of its capacity, which represented 84% of its electrical generation for the year ended December 31, 2001, to several third parties under long-term contracts maturing from 2006 to 2027.

(d) In 2000, the Company entered into a joint venture agreement (the "Agreement") with First Canadian Electric Inc. ("FCE"), for the expansion of the existing 6 MW gas-fired Drywood Plant by a further 7.5 MW facility (the "Expansion"). Under the Agreement, FCE was solely responsible for funding the construction of the Expansion. In addition, the Agreement stipulated that upon satisfactory completion and commissioning of the Expansion, the Company would transfer 40% ownership of the existing 6.0 MW Drywood Plant to FCE and FCE would transfer 60% ownership of the Expansion to the Company, at no cost to the Company.

In order to facilitate FCE's involvement in the joint venture, and to assist FCE with financing for the construction of the Expansion, the Company acted as guarantor for a $1,300,000 demand loan that FCE had entered into with its lender (the "Loan"). In consideration for the Company's guarantee, FCE entered into an Indemnity Agreement with the Company, the terms of which are now the subject of a dispute between the Company and FCE.

During 2001, FCE was unable to complete construction of the Expansion. Approximately $3,000,000 in liens (the "Liens") have been filed against the property on which the Expansion is located, the validity of which have not been determined. In addition, the Company has been named in statements of claim filed against FCE for approximately $500,000.

FCE has filed a lawsuit against the Company claiming $4,000,000 in damages. The Company believes FCE's lawsuit is without merit and is currently preparing a statement of claim against FCE.

The Company does not expect the outcome of these proceedings will have a material adverse effect on the Company's financial position or results of operations, although no assurance can be given in this regard. The Company's potential financial obligation, if any, is unknown and indeterminable at this time and no provision in the financial statements has been made at December 31, 2001.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

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General Counsel and
Corporate Secretary

William A. Johnson, R.P. Bio
Vice President,
Environmental Management

John D. Keating, CA
Chief Executive Officer

J. Ross Keating, P.Eng
President and Chief
Operating Officer

Gavin S. Lowe,
Operations Manager,

Lewis Manning, LLB
Vice President,
Canadian Gas & Electric Inc.

Angelito de la Paz, CGA
Treasurer

DIRECTORS:

Kevin J. Brown[1]
Calgary, Alberta

Dennis M. Erker[1][2]
Edmonton, Alberta

John D. Keating
Calgary, Alberta

J. Ross Keating
Calgary, Alberta

JR Shaw
Calgary, Alberta

David J. Stenason[1]
Montreal, Quebec

[1] Member of Audit & Compensation Committees
[2] Board Chair

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
Calgary, Alberta; Vancouver, British Columbia; Toronto, Ontario

SHARE STRUCTURE:

Common issued and outstanding	48,151,301
Fully diluted common shares	60,391,423

HEAD OFFICE:

Suite 500, 1324 – 17 Avenue SW
Calgary, Alberta, Canada T2T 5S8
Tel: (403) 269-9379
Fax: (403) 244-7388
Email: canhydro@canhydro.com
Internet: http://www.canhydro.com

AUDITORS:

Deloitte & Touche LLP
Calgary, Alberta

BANKERS:

National Bank of Canada
Toronto-Dominion Bank, Calgary

INDEPENDENT ENGINEERS:

McDaniel & Associates Consultants Ltd.,
Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange "KHD"

the future is the past repeated... but only without the mistakes

In keeping with Canadian Hydro Developers' commitment to the environment, the paper used for this annual report has been supplied from a sustainable forest program and manufactured using a 100% chlorine-free bleaching process that significantly reduces air emissions. This paper contains 50% recycled and 20% post consumer fiber. The entire report is printed with vegetable-based inks.

They stand
tall and proud,
working in harmony with
the prairie landscape.

They are
sentinels of serenity,
as they gently
touch the sky and
harvest the wind.

They are symbols...
of vision,
strength
and prosperity.

They epitomize
the company
that has grown to be
Canadian Hydro Developers.

CANADIAN HYDRO
DEVELOPERS, INC.